Funds a step closer to incentive fees

By Joel Chernoff and Marci Baker

Pension fund executives may be eager to implement new performance-based fee schedules, but their enthusiasm might be dampened by the Department of Labor.

While the Securities and Exchange Commission has approved use of performance-based fees, the Labor Department seems none too eager to provide general guidance on their use.

Rather, guidance is likely to come on a case-by-case basis, and money managers will have to find out whether their particular arrangements will survive departmental scrutiny.

"The general problem that a lot of these situations face is that they confer on the fiduciary the ability to determine their own level of compensation, and that's very difficult to reconcile under ERISA," said Alan Lebowitz, deputy administrator of the Labor Department's pension office.

However, some pension executives believe it is only a question of time before fee schedules are restructured. International Business Machines Corp. may be among the first to establish an incentive-based fee program.

Robert Shultz, director-U.S. retirement funds, said he might reestablish a discussion on incentive

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Late news

Asset disposition set

MORRIS TOWNSHIP, N.J. — Complex actuarial calculations will be required to determine the disposition of $6 billion in employee benefit assets following the spinoff of 28 business units by Allied-Signal Inc., said Edward T. Tokar Jr.,

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Pensions & Investment Age

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The newspaper of corporate and institutional investing • $4.00 an issue • $75 a year • November 25, 1985

Investors applaud firm's premiere

3-year-old New World Pictures, which gave the moviegoing public "Godzilla 1985," gave the investing public a simultaneous offering of common stock and subordinated notes. Investors greeted it with strong demand. Story on page 31.

Pension execs, managers face huge insurance hikes

By Steve Hemmerick and Trudy Ring

Liability insurance premiums are skyrocketing for pension fund executives and money managers, victims of a nationwide liability insurance crisis.

Fiduciary liability insurance, held by an estimated 80% to 90% of corporate and jointly trusteed pension plan sponsors and many public plans, now costs 50% to 500% more than it did during the first half of 1985, insurance brokers report.

The cost of errors and omissions insurance, a kind of malpractice insurance for money managers, is up generally 200%, but increases can go as high as 2,000%, according to underwriters and insurance brokers. About 55% of investment managers, including mutual fund managers, carry such policies, said Bill Baker, an account executive with Tongue, Brooks & Co., a Baltimore insurance brokerage firm.

Costs for both types of insurance are determined on a policy-by-policy basis, dependent on such factors as claims experience, underwriting exposure, track record (of money managers), deductibles and coverage limits.

Increases in the premiums may make errors and omissions insurance less attractive to money managers, but pension plan executives likely will continue to see fiduciary liability insurance as a necessary cost of doing business, experts in the field said.

"The cost of doing business has gone up, but we still find that what we are purchasing is not out of line," said Dennis Hoffman, director of insurance operations for Deere & Co., Moline, Ill.

"Most people that do buy (fiduciary liability insurance) now have made a conscious decision to buy it and will stay with it," said Ron Boggs, a consultant in the Chicago office of The Wyatt Co., which surveys corporations on fiduciary liability and directors' and officers' insurance.

The rising cost of both fiduciary liability and errors and omissions insurance is part of a trend throughout the insurance industry.

Rates on all types of professional liability insurance are going up because of claims against corporate executives, not necessarily in the pension investment area.

In a major suit outside the pension area earlier this year, Bank of America, San Francisco, sued six officers in connection with a $95 million loss triggered by the bank's involvement with allegedly fraudulent mortgage-backed securities. At the same time, the bank sued its two directors' and officers' insurers, who then canceled the bank's coverage.

Also, lawsuits charging breaches of fiduciary duty have increased, said Albert Salvatico, a managing director of Marsh & McLennan Cos., the New York-based insurance broker. These suits often are triggered by underfunding of pension plans or recovery of assets by terminating overfunded plans, he said.

For instance, two pensioners already have sued Wheeling-Pittsburgh Steel Corp., Pittsburgh, seeking to hold company officials, as well as the United Steel-

Continued on page 66

Mead cuts fixed, hedges equities

By Richard J. Gillespie

DAYTON, Ohio — Mead Corp., under the direction of a new pension fund executive, has gotten out of the fixed-income markets and is boosting its equity holdings.

The common stock allocation for the $360 million pension fund will be boosted to 75% from 60%, with the portfolios being protected by a portfolio insurance program using futures, according to Brian Ross, the new manager-pensions and investments.

The remainder of the asset mix will remain 15% real estate equity, 5% convertibles and 5% cash. Previously, the fund had 15% in fixed-income investments.

The move is being made to eliminate corporate contributions to the overfunded plan. The present value of plan liabilities as of Jan. 1 was $265 million.

"Our goal is to have zero pension costs and for the fund itself to fund the plans," using the receipts of stock dividends and sales of stock holdings, said Mr. Ross. He recently joined Mead Corp.'s treasury group from the University of Miami, where he taught money and banking for the economics department.

Last July, former pension fund executive Shirley Shea De Jarnette swapped jobs with Gerald Bialka, an assistant treasurer with responsibility for corporate finance and international treasury operations.

In turn, Mr. Bialka brought in Mr. Ross, and together they came up with a plan to ditch the fund's $60 million fixed-income commitment — held in a J.P. Morgan Investment Management Inc.'s commingled fund — in favor of a hedged equity index fund.

Recently, Wells Fargo Investment Advisors in San Francisco was given $40 million to run an index fund tailored to track the Standard & Poor's 500 stock

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Photo by Michael Marcotte

Ronald Gold, left, Richard Ennis, center, and James Knupp, principals of the Chicago consulting firm Ennis, Knupp & Gold, discuss the changing needs of pension fund executives in Pensions & Investment Age*'s annual directory of investment consultants, beginning on page 55.*

PIPER international and

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Responsibility on IPGs at issue

Teamwork halts amendment

By Joel Chernoff

WASHINGTON — Two unlikely allies — U S WEST Inc. and organized labor — apparently have helped stop insurance industry efforts to avoid fiduciary responsibility for immediate participation guarantee contracts.

At issue was an amendment to Congress' budget reconciliation bill that could have affected separate lawsuits brought by U S WEST of Englewood, Colo., and two Taft-Hartley pension funds against two insurance carriers from which they had purchased IPGs.

Officials from U S WEST and the AFL-CIO's building trades department mounted serious opposition to the amendment, lobbying senators heavily and noting the cases affect constituents in 25 states.

Sens. Don Nickles, R-Okla., and Christopher Dodd, D-Conn., had presented the industry proposal to Senate members for reaction, but would not push the measure unless it were considered "non-controversial," sources added.

Sen. Howard Metzenbaum, D-Ohio, squelched the proposal as it was being circulated.

The complex set of issues boils down to whether an insurance company is considered a fiduciary under the Employee Retirement Income Security Act with regard to assets underlying certain contracts that are commingled in the insurer's general account.

Generally, ERISA exempted such assets from being considered plan assets where the insurance contract is deemed a "guaranteed benefit policy."

In such cases, the insurer avoids the burden of being a plan fiduciary with respect to insurance company general account assets. (An insurer is considered a fiduciary with respect to separate accounts for pension plans.)

Some pension fund executives, including those from U S WEST and the unions, argue they have been cheated out of assets because of "hidden charges" imposed when the funds terminated their contracts and sought repayment in a lump sum, rather than during a period of several years.

Some seek to have the insurance companies considered plan fiduciaries under ERISA.

Conversely, insurance industry experts maintain confusion regarding the legal status of these contracts may affect billions of dollars contained in insurance company general accounts. ERISA's fiduciary obligations would place impossible and contradictory demands upon their ability to protect all policyholders, they contend.

The insurance industry still may attempt to add clarifying wording

Continued on page 65

In the case of "Intermarket," (an investment of the Illinois Venture Fund) institutional investors' interest in and use of financial futures and options provide the catalyst for growth.

— Rodney Goldstein, Frontenac Venture general partner

Some funds high on low-tech deals

By Trudy Ring

Some pension funds have taken the low road in venture capital investments — low technology, that is.

Pension funds' recent investments outside the high-technology sector include a rural hospital management company, an operator of psychiatric clinics, a regional airline, an operator of funeral homes and a financial magazine.

"A business enterprise is a business enterprise, and you can make just as high a return on some mundane concepts as in some totally new industries," said Carl Liebscher, director of investments for Deere & Co., Moline, Ill. Deere's $1.8 billion pension fund has invested in several venture partnerships that have made investments both in and out of the high-technology sector.

The initial public offering market has been hospitable to non-technology issues, said Edwin Goodman, a general partner of the $32 million Hambro International Venture Fund, which handles about $12 million from pension plans.

The 3-year-old fund's first portfolio company to go public is National Healthcare Inc., Dothan, Ala., which manages rural hospitals. The company expects to raise $60 million in its IPO.

The Hambro fund put $1.5 million into the health care company 18 months ago. With the public offering, this will have a market value of $5 million to $6 million, Mr. Goodman said. If investors don't sell immediately, they could stand to gain more, he said.

U.S. pension fund investors in the Hambro fund were the YMCA Retirement Fund, New York; United Systems Master Trust, Kansas City, Mo.; and another that invested through Manufacturers Hanover Investment Corp., New York. Also, eight British pension funds put money into the Hambro partnership.

The partnership invested in both high-tech and other types of businesses, Mr. Goodman said. The investment in National Healthcare was attractive because of developments in that industry, such as new Medicare policies and demands for cost control, he said.

"Where there's realignment in an industry, it represents opportunity," Mr. Goodman said. "This investment seemed to have a fairly moderate risk with high potential."

Another non-technology investment by the fund was in Rivendell of America Inc., Memphis, Tenn., a builder and operator of residential psychiatric clinics. The company is making progress, having opened its first clinic and completed construction of its second, he said.

Investments by Chicago-based Golder, Thoma & Cressey's two venture capital funds have been both in and out of high-tech, said Stanley C. Golder, general partner. Popularity of "low-tech" investments doesn't mean high-tech is out of favor, he said.

"I think there's always going to be opportunity in high tech to a degree, but people have to be more selective in the types of companies

Continued on page 67

Charity spurs big investment in Gary Bland

By Steve Hemmerick

SEATTLE — Gary Bland, manager of trust investments for Boeing Co., is an expensive date.

One Seattle businesswoman spent $1,350 earlier this month to obtain a date with the pension executive, and she wasn't even seeking to manage Boeing pension assets.

Mr. Bland was among 22 Seattle-area bachelors, including television newsmen and professional athletes, who put themselves up for bid at a March of Dimes fund-raiser here that netted about $20,000.

Despite being the oldest, shortest and grayest of the bachelors, Mr. Bland attracted the highest bid.

Judy Moore, a vice president of marketing for Budget Rent-a-Car, wrote the $1,350 check for a date with Mr. Bland.

Prior to their date, Ms. Moore said she picked Mr. Bland "based strictly on personality he conveyed. He looked intelligent and looked like he enjoyed life." She also reportedly said she needed a tax write-off.

Part of the reason the bidding was steep for Mr. Bland, guessed Jayne Manlowe, who helped put the charity affair together, was Mr. Bland is "real attractive, with salt-and-pepper hair and real blue eyes. He is a little small, 5 feet 9 inches. One of the other bachelors is 6 feet, 10 inches tall from the (Seattle) SuperSonics (professional basketball team). You can imagine what they looked like standing together."

Mr. Bland also is known to "have a lot of money. I hate to be that blunt, but it is a fact of life, you know," Ms. Manlowe said.

Each man was offered as a "package" that included plans for the evening's entertainment.

Mr. Bland offered to take his high bidder on a "limo-chauffeured evening" for dinner in the Georgian Room of the Four Seasons Hotel in Seattle, followed by dancing and a night cap.

The most common date offered, said Ms. Manlowe, was dinner and a play or show, but one date included a flight to San Francisco with a champagne breakfast.

That Mr. Bland attracted the highest bid was made known at a real estate conference in San Francisco. Mr. Bland, who was in attendance at the conference, blushed.

He jokingly said he agreed to participate in the March of Dimes fund-raiser because he thought he "couldn't otherwise get a date."

One real estate marketing man for an insurance company said his firm held a pool in the office for the date with Mr. Bland, but the bid for the date was "$1,348 short" of the winning one. ■

Few managers are sought for rosters

By Rose Darby

Pension funds' demand for additional money managers has slowed.

Some pension fund executives have become less interested in adding to what already might be an overcrowded slate of active money managers, said plan executives and consultants interviewed by *Pensions & Investment Age*.

Observers said the slackening demand is the result of:

- a more sophisticated approach by pension executives;
- the high cost of multiple manager arrangements;
- the feeling by some that they have enough value-oriented managers;
- relative satisfaction with the lineup because the markets have provided good returns; and
- increasing interest in passive management, especially on the fixed-income side.

Decline in the demand for active managers also was attributed to the diluted benefits of increasingly undifferentiated investment styles.

"There seems to be much more concern by large plan sponsors regarding how many money managers they have," said Sandy Lincoln, director of investment services at A.S. Hansen Inc., a pension consulting firm in Lake Bluff, Ill.

"We're seeing a lot less interest in adding more active managers," he said.

The cause of that trend is related to costs and benefits, he said.

Pension executives are asking, "What are we getting for what we're paying?"

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The Market Surge

Managers were fully invested and waiting

Proper positioning paid off for pension plans

By Alan Krauss

Pension funds apparently were well positioned to benefit from an explosion in the equity markets that saw the Dow Jones industrial average rise 10% in eight weeks to record highs before settling around 1,430 in mid-November.

Most equity money managers surveyed by *Pensions & Investment Age* said they had reduced their cash positions and were fully invested in the equity markets well before the run-up began in September.

That equity managers overall seemed virtually fully invested left no firm explanation for the market surge. While some observers discounted money managers' claims of being fully invested before the market rally, others said a number of factors could explain the rise. These include:

• Commitments to the market by mutual funds, which generally had higher cash positions than pension funds.

• Commitments by pension fund managers of some fixed-income assets to the equity markets.

• Purchases by foreign investors, particularly Japanese.

• Index futures-related transactions.

• The reinvestment of cash by former shareholders of companies that have been acquired in takeovers or that have bought back their stock.

• The fact that nobody seemed to be selling stock.

Statistics from INDATA, a Southport, Conn., investment analysis firm, show only a slight drop in the cash position of equity managers when the market took off. Cash positions fell to 7% as of Nov. 15 from 7.4% at the beginning of the month and 7.1% at the end of the third quarter.

An INDATA spokesman, who called the drop "infinitesimal," said the figures suggest equity managers did not reduce their cash positions to get in on the market rally. The small decline could be accounted for by the increased market value of the total portfolio, he said.

"That would imply that it was not institutions that were fueling the buying," he said.

Statistics compiled by Merrill Lynch Consulting Group agreed with the INDATA figures; they showed balanced pension accounts also had relatively low cash positions as of the end of September, the most recent figures available.

Pension funds had an average of 9.2% cash in balanced accounts for the quarter ended Sept. 30, according to Merrill Lynch, compared with an average 10.8% cash position for the five years.

But Edward Yardeni, chief economist at Prudential Bache Securities Inc., New York, discounted managers' claims of being fully invested throughout the market surge. Mr. Yardeni noted several of his firm's brokerage accounts built up substantial cash positions in the early stages of the rally.

Money managers interviewed by *P&I Age* — be they large or small, including market timers and excluding only a few contrarians — insisted they were where they belonged.

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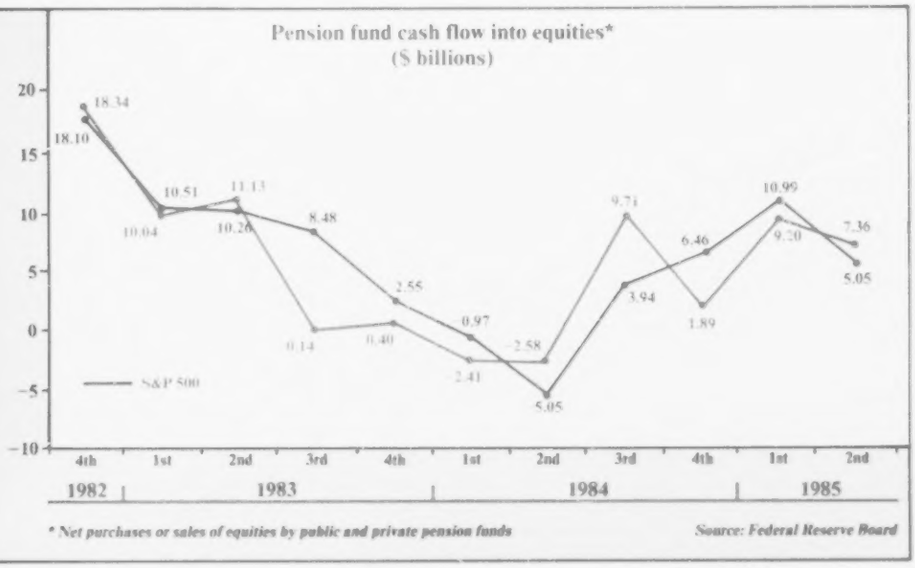

Funds return to equity market

By Richard J. Gillespie

Corporate pension funds are buying equities after an extended dry spell in which they were net sellers of stocks, Federal Reserve Board statistics show.

According to the Federal Reserve Board's Z-1 report on flow of funds into the marketplace, private pension plans seem to have reversed a trend in which the stock market increasingly was abandoned in favor of fixed-income management techniques like dedication and immunization.

Figures taken from the Federal Reserve report and published by Prudential-Bache Securities Inc. show that in the first half of 1985, private pension plans increased stock market holdings by $4.23 billion after making net sales of $2.6 billion in equities during 1984.

"The figures show there was still a bias to the fixed-income side, yet they have been buying equities, and that is significant," said a Pru-Bache spokeswoman.

More recently, activity in immunization and dedication seems to have trailed off, according to Paul Berg, president of Berg Fiduciary Consultants Inc., Port Chester, N.Y. (Federal Reserve statistics for the third quarter are not yet available.)

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Readers asked to vote on top stories of '85

Corporate and institutional issues grabbed headlines nationwide in 1985.

Which of those trends and news events were the most significant? The editors of *Pensions & Investment Age* put the question to the movers and shakers in the capital markets — our readers.

Below is a list of major stories reported by *P&I Age* during 1985. Please look over the list, then choose the five you believe were the most important. Rank order your choices from 1 to 5 (with 1 being the most significant or important), and place the numbers in the boxes beside your choices on our list.

☐ Institutional investors divest of $738 million in South Africa-related securities, with another $8 billion planned for divestment within the next five years.

☐ The Pension Benefit Guaranty Corp. negotiates a collateralized funding waiver for The LTV Corp. as the agency becomes more militant and high-profile.

☐ Salomon Brothers Inc. moves into the program trading area and away from block trading.

☐ Some pension funds sue insurers over immediate participation guarantee contracts, while others try to withdraw from IPGs.

☐ E.F. Hutton & Co.'s chairman pleads the company guilty to charges of wire and mail fraud stemming from the company's cash management procedures.

☐ Troubled companies with huge unfunded liabilities freeze their defined benefit plans and set up defined contribution plans to keep their unfunded liabilities from growing even larger.

☐ Several companies set up pension parachutes to prevent surplus pension assets from helping to finance a hostile takeover.

☐ The amount of excess assets reverting to employers from pending and completed terminations of overfunded pension plans skyrockets to $9.45 billion.

☐ NBC airs its white paper on pension funds, "The Biggest Lump of Money in the World," amid scorching criticism from members of the pension community.

☐ As the PBGC pushes for an increase in its single-employer premium, Allis-Chalmers Corp. and Wheeling-Pittsburgh Steel Corp. dump unfunded liabilities totaling at least $600 million on the agency.

☐ United Air Line's surplus assets from terminated pension plans become integral to financing the airline's aggressive corporate expansion.

☐ General Motors Corp. issues separate classes of common stock to help finance its acquisitions of Electronic Data Systems and Hughes Aircraft Co.

☐ Hybrid plans emerge, combining the advantages of both defined benefit and defined contribution plans.

☐ Municipalities begin to issue tax-exempt bonds to buy annuities to pay benefits.

☐ A crisis in the repurchase agreement market results in investors holding the bag for more than $500 million in uncollateralized repos.

☐ Pension funds become investors in hostile takeovers by purchasing "junk" bonds issued to finance the takeovers.

☐ Pension executives continue to pressure service providers to keep costs down by lowering trading/transaction costs, using soft dollars, doing directed trades with cash rebates and using incentive fees whenever legally possible. At the same time, the Department of Labor and the Securities and Exchange Commission take a hard look at soft dollars.

☐ Pension funds continue to lock up gains, putting billions of dollars into dedicated and immunized bond portfolios.

☐ A federal appeals court rules, in a case against Grumman Corp., that trustees still may be liable if the use of plan assets in fending off a takeover results in a short-term loss, even if the pension fund ultimately profits financially from the action.

☐ Pension funds enter new investment areas, such as participating annuities in terminations, portfolio insurance and secondary guaranteed investment contracts.

☐ A federal judge rules the Operating Engineers Local 675 pension fund did not violate law by financing, building and leasing a headquarters for the union and the pension fund.

☐ Index funds gain the most new money from institutional investors.

Please send this list, with your responses to:

Nancy K. Webman
Pensions & Investment Age
740 N. Rush St.
Chicago, Ill. 60611

Responses, which should be anonymous, must be received by Dec. 16. Results will be published in the Jan. 6 issue of *P&I Age*.

PIPER

The statistical data are extracted from Pensions & Investments' Performance Evaluation Report, a quarterly performance evaluation published by Pensions & Investment Age. *PIPER details comparative performance data on equity and fixed-income funds at more than 200 banks and insurance companies. PIPER is compiled by Rogers, Casey & Barksdale Inc., Stamford, Conn.*

First of Neenah, Citicorp funds top rankings

By Alan Krauss

Two pairs of specialized commingled equity funds turned in top performances for the year ended Sept. 30, according to the latest Pensions & Investments' Performance Evaluation Report.

Pooled special equity funds run by the First National Bank of Neenah in Wisconsin had the first- and fourth-highest returns for the year. Citicorp Investment Management Inc., New York, had the second- and third-best performing funds for the period.

First of Neenah's $5.7 million regional bank fund was the top-performing special equity fund for the quarter — returning 4.8% as well as the year — returning 43.1%.

In a quarter marked by an erratic market whose volatility was virtually the only constant, the median PIPER fund declined 4.8%, while the Standard & Poor's 500 stock index fell 4.1%.

In addition to First of Neenah's, only one other fund tracked by PIPER had a positive return during the quarter: the special equity fund run by Northern Central Bank, Williamsport, Pa., which gained 0.3%.

Kenneth J. Brusda, vice president and trust officer at First Neenah, said the fund's objective has remained constant.

"We make what I call 'the bank doubleplay,'" Mr. Brusda said.

"We look for high-quality bank stocks at reasonable prices. We also look for likely takeover prospects in states that have, or are close to having, laws permitting interstate banking."

Mr. Brusda said he likes the stocks of banks with between $200 million and $4 billion in assets, because larger banks are more likely to acquire than be acquired.

Among the principal holdings in the regional bank fund portfolio during the third quarter were: **Second National Corp.**, Saginaw, Mich., and **Union Trust Bancorp.**, Baltimore. Both banks were acquired during the third quarter by Sovran Bank of Richmond, Va., Mr. Brusda said.

Other significant positions are in **First Bancorp Ohio**, Akron, which Mr. Brusda called an "attractive" takeover candidate; **Suburban Bancorp.**, Bethesda, Md.; and **Mercantile Bankshares**, Baltimore.

During the quarter, the portfolio sold off a position in **Arizona Bancwest** after the bank announced it had agreed to be acquired next fall.

"We know bank stocks will come to be more widely recognized at some point in the future, when price-to-book ratios become more normal and the states have all passed interstate banking laws," Mr. Brusda said. But he said he sees another 12 to 18 months before the trend runs out of steam.

"We're still putting money into the area, but we're cautioning ourselves not to get overenthusiastic."

Mr. Brusda also manages First of Neenah's $3 million equity-income fund, which had the fourth-best performance both for the quarter, -0.5%, and for the year, 27.9%.

He believes the equity income fund will be successful over a longer term than the bank fund because its central concepts can be applied to many different industries.

The fund's investment objectives center on high current yield and high capital appreciation, according to Mr. Brusda. He cited four legs to its investment strategy: high-yield common stocks; convertible securities; the selective sale of call options on the stocks; and real estate investment trusts.

Mr. Brusda observed his strategy lends itself to a contrarian style, because "yield can't always be found in popular stocks." He gave as an example **Beatrice Cos.**, which he bought for its "decent" yield of about 6%. "It was a comfortable, 'sleeper' holding, that some people thought dull," he said. "But we've watched its stock price rise from $30 to $44 as the (leveraged) buy-out (by Kohlberg Kravis Roberts & Co.) proceeded."

Significant portfolio positions liquidated during the period were **Marsh & McLennan Cos. Inc.**, **Phillips Petroleum Co.** and **Unocal Corp.** Large holdings retained at the end of the third quarter included **Philip Morris Inc.**, **Commonwealth Edison Co.** and **Browning-Ferris Industries Inc.**

About 10% of the portfolio is in REITs. Mr. Brusda said, including **New Plan Realty Trust** and **First Union Real Estate and Mortgage Trust**.

The second and third positions in the one-year period were occupied by Citibank's special situations fund, with a return of 30.6% over the year, and Citibank's fund specializing in emerging health care issues, 28.9% for the year.

Ronald Wiener, vice president and portfolio manager of the $250 million special situation fund, said its results over the past year follow from the fund's overall strategy, which keys on secular changes in companies or industries.

"We try to anticipate events that will change the operating dynamics of a company," Mr. Wiener said, citing as examples asset restructuring or changes in an industry's regulatory environment.

The special situations fund has been heavily invested in the deregulated broadcast media stocks, including **Storer Communication Inc.**, **American Broadcasting Cos. Inc.**, **Capital Cities Communications Inc.** and **Viacom International Inc.**

A second area of concentration for the special situations fund was in the airline industry, where deregulation intensified the competitive environment, putting the major airlines in a "terrific position" to consolidate their routes and cut their fares, he said.

The new environment created opportunities for successful regional lines to find secure niches in the market.

Among the airline holdings of the portfolio over the year were **American Airlines Inc.**, **UAL Inc.** and **Alaska Airlines Inc.**

Finally, Mr. Wiener has identified the toxic-waste disposal industry as subject to increasing governmental regulation. Stricter licensing and environmental controls as well as growing political awareness of the country's toxic waste problems have made it even more difficult for waste-disposal companies to open new sites.

"It's now extremely difficult to get into the toxic-waste business, so the major players have great pricing flexibility," Mr. Wiener said, citing **Waste Management Inc.**, **International Technology Corp.** and **Environmental Systems** as the portfolio's major holdings in the industry.

For the one-year period, the median PIPER fund returned 10%, against the S&P's gain of 14.6%.

For the three-year period ended Sept. 30, the median PIPER fund returned 17.1% on an annualized, compound basis, underperforming the S&P, which gained 20.1%.

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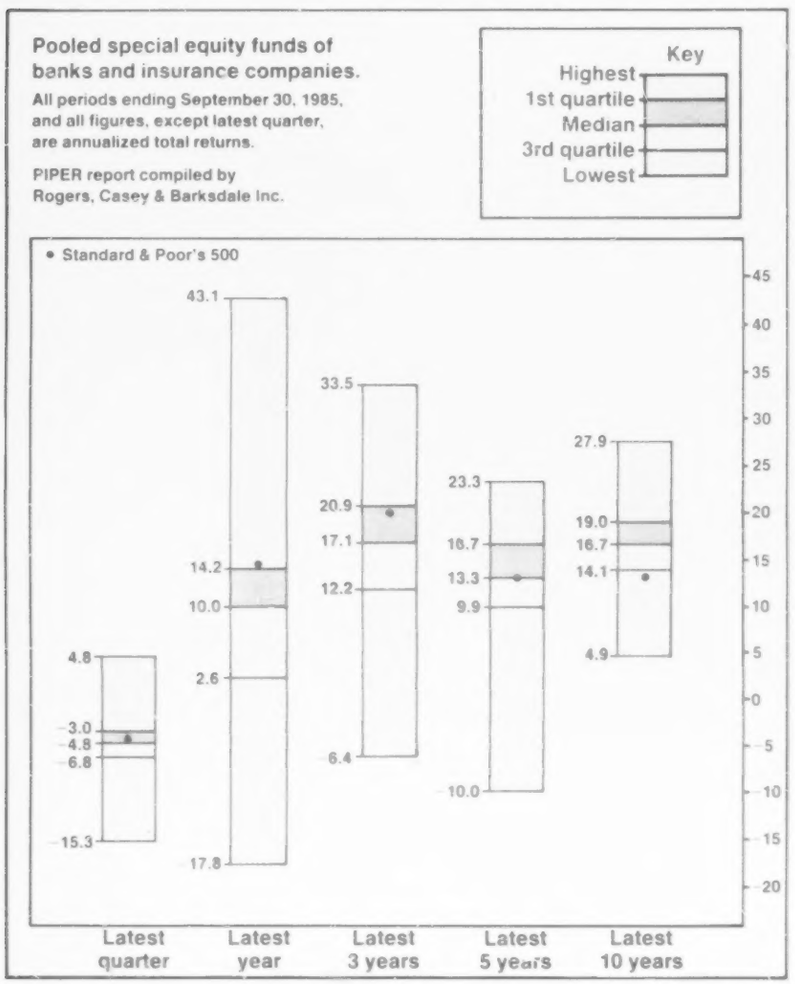

Top-down strategists leaders in international arena

By Rose Darby

International equity managers using top-down strategies took the laurels in the most recent Pensions & Investments' Performance Evaluation Report.

The PIPER international universe consists of 25 bank and insurance company commingled equity and bond funds. Equity and bond performance results are compared on an equal basis because of the small size of the universe.

For the quarter ended Sept. 30, Bank of America, San Francisco, with its $35 million International Employee Benefit Equity fund was the top performer, with a 21.1% total return.

"We have been a premier bond manager and we're applying the disciplines from the bond side to the equity markets," said Francois Dennery, vice president of BAIMCO International Ltd.

"We've tried to identify the climate where the surprises are going to occur," said John Horseman, investment manager, who oversees the fund.

An exposure was adopted that would act best if there were disappointments in the continued growth expectations of the U.S. economy, he explained.

To take advantage of that scenario, commodity stocks, technology-related stocks and general business spending issues were avoided, said Mr. Horseman.

"We've been more active in the stocks of retailers in Europe, Japan and the United Kingdom," he said. "And, we've bought utilities, including telephones and electric and gas issues, and stocks in the financial areas like banking and insurance companies.

"We've adopted an above-average exposure in these areas."

Second for the quarter was Aetna Montagu Asset Management, Hartford, Conn., with a 20% total return.

Citicorp Investment Management, New York, followed with 19.6% and Bank of America's International Employee Benefit Fixed Income Fund was fourth with 18.7%.

By comparison, the Capital International Europe Australia Far East index had a total return of 14.9% for the third quarter.

In the one-year period ended Sept. 30, none of the managers in the universe topped the EAFE's 41.2% time-weighted total return.

Following close on the heels of the market was Aetna Montagu, which was the champion fund for the year with a 39.2% time-weighted total return.

The $105 million international equity fund is managed out of Aetna Montagu's London office, said Christian Thwaites, assistant vice president in Hartford.

He attributes the fund's performance to a decision earlier this year to de-emphasize the stocks that would benefit from strong U.S. exports.

The benefits that these issues experienced from export sales and growth already have been fully discounted at the stocks' current levels, he explained.

"We placed extra emphasis on domestic areas of economies and stock markets in Japan, West Germany and the United Kingdom," Mr. Thwaites said.

For example, while the EAFE index was at a 45% weighting for Japan, Aetna Montagu's fund had a 46% to 47% weighting, he said.

"In Japan, we went slightly overweighted because we identified huge cash inflows coming into the market from Japanese mutual funds," he said.

This thought process brought the fund's managers to look at the domestic economies of various countries in a way that is not customary, he said.

"There was this sudden attraction of the domestic economies, which had never been looked at before by foreign investors," he said.

This led to the purchase of stocks in domestic areas such as real estate, transportation, construction, retailers and banks and financial companies, he added.

Second for the one-year period was American National Bank & Trust Co. of Chicago's International Equity Fund with a 39.1% time-weighted total return. The $10 million fund is a passively managed.

Continued on page 13

Neenah, Citicorp . . .

Continued from page 11

The top PIPER fund for the three years was the aggressive equity fund run by Fidelity Management Trust Co., Boston, which had an annualized, compound return of 33.5%. The second- through fifth-best returns for the three years were: Citicorp's real estate stock fund, 32.2%; Citicorp's special situations fund, 28.1%; Equitable Bank of Baltimore's special fund, 28%; and Provident National Bank of Philadelphia's special equity fund, 26.8%.

For the five-year period, the top-performing pool was Citicorp's real estate stock fund, which returned 23.3% compounded annually.

According to Anne Mengden, Citibank vice president and co-portfolio manager, over the five-year period the portfolio has reflected swings in emphasis between the commercial and residential sectors of the real estate markets.

When the fund began five years ago, the portfolio was distributed fairly evenly between the two sectors, she said.

In 1982 and early 1983, the emphasis was on such residential-sector companies as homebuilders and mobile-home manufacturers. Over the past year, the emphasis has shifted strongly to the commercial sector, reflecting the managers' belief that REITs are "the purest way to invest in income-producing real estate through the stock markets," because they own portfolios of real estate, the income from which is distributed as dividends.

The portfolio is now weighted about 20% in commercial development companies, 60% in REITs and 20% in companies that are indirectly in the real estate business. Examples of each are: **First Union Real Estate Investments** and **Federal Realty** (trusts); **The Rouse Co.** and **Bay Financial Corp.** (developers); and **Lomas & Nettleson Financial** and **Newhall Land and Farming**.

The second through fifth positions for the five years were occupied by Provident National Bank, 21.6%; First National Bank of Maryland, 20.5%; Chase Manhattan's value equity fund, 19%; and California First Bank's supplemental equity fund, 17.7%.

For the 10 years ended Sept. 30, the top performer was the growth fund of MBank, Houston, 27.9%. Second through fifth were: Equitable Bank, 26%; Northern Central Bank, 22.8%; First of Maryland, 22.8%; and Chase Manhattan, 22.2%.

The median PIPER fund returned 16.7% compounded annually over the 10-year period; the S&P gained 13.5%.

PIPER is compiled by the consulting firm Rogers, Casey & Barksdale, Stamford, Conn. ■

Commingled special equity funds

3-month returns

	%
First of Neenah (Reg. bk.), Wis.	4.8
Northern Central, Pa.	0.3
Chase Manhattan (Val. eq.), N.Y.	−0.5
First of Neenah (Eq. inc.), Wis.	−0.5
Man. Hanover (Uncommon), N.Y.	−1.0
Metropolitan Life (No. 5), N.Y.	−1.1
Natl. Bank of Commerce, Tenn.	−1.4
First of Boston (Eq. II)	−1.5
Natl. Bank of Detroit (Op.)	−1.6
First of Minneapolis (No. 20)	−1.6
Pittsburgh Natl. (QRC), Pa.	−1.9
Manufacturers Detroit (I)	−1.9
Man. Hanover (Sup. eq.), N.Y.	−1.9
Citicorp (R.E. stk.), N.Y.	−2.0
Wachovia (Div. sp. val.), N.C.	−2.0
Interfirst Bank, Dallas	−2.1
Central Fidelity (Aggres. eq.), Va.	−2.7
Chemical Bank (Com. stk.), N.Y.	−2.7
Trust Co. of the West (Val. add.)	−2.7
Society National, Ohio	−2.8
American Fletcher, Ind.	−2.9
Provident National, Pa.	−3.0
First of Maryland	−3.0
Standard & Poor's 500	**−4.1**

1-year returns

	%
First of Neenah (Reg. bk.), N.Y.	43.1
Citicorp (Spec. sit.), N.Y.	30.6
Citicorp (Health care), N.Y.	28.9
First of Neenah (Eq. inc.), Wis.	27.9
First of Minneapolis (No. 20)	26.6
Fidelity Mgmt. Tr. (Ag. eq.), Mass.	22.8
First of Boston (Eq. II)	21.5
Citicorp (R.E. stk.), N.Y.	20.4
Merchants National (No. 2), Ind.	19.6
Trust Co. of the West	18.9
Old Second Natl. (No. 10), Ill.	18.8
First of Maryland	18.7
Metropolitan Life (No. 43), N.Y.	17.9
Summit Trust Co., N.J.	17.7
Mutual of New York (Eq. inc.)	17.4
Natl. Bank of Detroit (Op.)	17.2
First of Boston (Eq. yld.)	16.3
Mellon Bank (Spec. stk.), Pa.	16.0
Bank of Amer. (Em. bene.), Calif.	15.2
Standard & Poor's 500	**14.6**
Connecticut Natl. Bank (Sup. eq.)	14.4
Chase Manhattan (Inter. cap.)	14.2
MBank, Austin (Keogh)	14.2
Pittsburgh Natl. (QRC), Pa.	14.2

3-year returns

	%
Fidelity Mgmt. Tr. (Ag. eq.), Mass.	33.5
Citicorp (R.E. stk.), N.Y.	32.2
Citicorp (Spec. sit.), N.Y.	28.1
Equitable Bank, Md.	28.0
Provident National, Pa.	26.8
First of Maryland	24.7
Connecticut National Bank	24.5
Wachovia (Div. sp. val), N.C.	24.1
First of Boston (Eq. II)	23.2
Chase Manhattan (Val. eq.), N.Y.	22.9
Man. Hanover (Uncommon), N.Y.	22.5
United Virginia Bank	22.1
Chase Manhattan (Inter. cap.)	21.6
Natl. Bank of Detroit (Op.)	21.5
First of Boston (Eq. yld.)	21.5
First of Chicago (Inst. spec.)	21.4
Bank of Amer. (Em. bene.), Calif.	21.2
Standard & Poor's 500	**20.1**

5-year returns

	%
Citicorp (R.E. stk.), N.Y.	23.3
Provident National, Pa.	21.6
First of Maryland	20.5
Chase Manhattan (Val. eq.)	19.0
California First Bank (Sup. eq.)	17.7
Sentry Life (A), Wis.	17.6
Citicorp (Spec. sit.) N.Y.	17.5
First of Boston (Eq. yld.)	17.4
Prudential (Sm/med cap.), N.J.	17.2
Connecticut Natl. Bank (Sup. eq.)	17.1
Bank of Amer. (Em. bene.) Calif.	17.0
MTrust (Growth), Texas	16.9
First Alabama (Spec. stk.), Mobile	16.8
Norwest Bank (Spec. invt.), Minn.	16.7
First of Chicago (Inst. spe.)	16.7
Standard & Poor's 500	**13.2**

10-year returns

	%
MTrust (Growth), Texas	27.9
Equitable Bank, Md.	26.0
Northern Central, Pa.	22.8
First of Maryland	22.8
Chase Manhattan, N.Y.	22.2
California First Bank (Sup. eq.)	21.3
Bank of Amer. (Em. bene.), Calif.	20.2
Conn. Bank & Trust (Em. bene.)	19.2
Provident National, Pa.	19.1
Morgan Guaranty (Sm. co.), N.Y.	19.0
Standard & Poor's 500	**13.5**

Commingled international funds

3-month returns

	%
Bank of America (Equity), Calif.	21.1
Aetna Montagu (Equity), Conn.	20.0
Citicorp (Equity), N.Y.	19.6
Bank of America (Fixed), Calif.	18.7
Morgan Guaranty (Eq. fd.), N.Y.	18.2
Citicorp (Fixed), N.Y.	17.3
Mellon Bank (Equity), Pa.	17.2
First of Chicago (Non $ fix.)	17.0
Prudential (Foreign Bond), N.J.	16.9
Marine Midland (Equity), N.Y.	16.5
IDS Trust (Coll. Eq.), Minn.	15.7
Fidelity Mgmt. Trust (Eq.), Mass.	15.4
Morgan Guaranty (Bond), N.Y.	15.2
U.S. Trust (Pooled fund eq.), N.Y.	15.1
CIGNA Corp. (Equity), Conn.	15.0
EAFE	14.9

1-year returns

	%
EAFE	41.2

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Aetna Montagu (Equity), Conn. . . 39.2
American National (Eq.), Chicago 39.1
Bank of America (Equity), Calif. . 37.8
Prudential (Global bond), N.J. . . . 36.4
Citicorp (Equity), N.Y. 35.2
CIGNA Corp. (Equity), Conn. . . . 33.8
Marine Midland (Equity), N.Y. . . . 33.1
Chase Manhattan (Glob. eq.) . . . 31.4
First of Chicago (Equity) 31.3
Prudential (Foreign bond), N.Y. . . 30.2
First of Chicago (Non $ fix.) 28.9
Morgan Guaranty (Bond fd.), N.Y. 28.6
Citicorp (Fixed inc.), N.Y. 28.6
Bank of America (Eb. fix.), Calif. . 28.2
Mellon Bank (Eb. Inv. fd. eq.), Pa. 26.0

3-year returns

	%
IDS Trust (Collec. fd. eq.)	30.1
EAFE	28.4
American National (Eq.), Chicago	24.7
Citicorp (Equity), N.Y.	24.2
First of Chicago (Equity)	24.0
Mellon Bank (Eb. inv. fd. eq.), Pa.	23.7
Morgan Guaranty (Equity), N.Y.	22.6
U.S. Trust (Pooled fd.), N.Y.	21.8
Bank of America (Eb. eq.), Calif.	21.7
Centerre Trust (Col. fd. W), Mo.	21.2
American Security (Equity), D.C.	20.9

5-year returns

	%
First of Chicago ($ fixed)	16.5
EAFE	12.7
U.S. Trust (Pooled fd. eq.) N.Y.	11.6
American Natl. (Equity), Chicago	11.5
Citicorp (Equity), N.Y.	10.6
First of Chicago (Equity)	10.4
Morgan Guaranty (Equity), N.Y.	10.2
Morgan Guaranty (Bond fd.), N.Y.	8.8
First of Chicago (Non $ fix.)	7.1

10-year returns

	%
U.S. Trust (Pooled fund)	16.6
EAFE	16.0
Morgan Guaranty (Eq. fd.), N.Y.	15.1
First of Chicago (Equity)	13.2

Top-down . . .

Continued from page 11

diversification fund, said Stephen Manus, vice president, who oversees the fund. "It's a broadly diversified fund with very low turnover.

"There is relatively little transaction cost typically associated with this kind of turnover."

While not exactly an index fund, there has been an attempt to replicate the EAFE.

That is really our goal," Mr. Manus said. "We would exclude stocks in countries because of things such as transaction costs, liquidity problems, or availability problems."

Third and fourth for the one-year period were Bank of America's International Employee Benefit Equity Fund with a 37.8% time-weighted total return and Prudential Asset Management Co., Newark, N.J., with its Global Bond Fund at 36.4%.

In fifth place for the 12 months ended Sept. 30 was Citicorp's International Equity Fund at 35.2%.

For the three-year period, the International Collective Equities Fund of IDS International, Minneapolis, led the pack with a 30.1% compound annual time-weighted total return.

It was the only fund that beat the EAFE, which returned 28.4% for the three-year period.

American National's International Equity Fund was next with a 24.7% compound annual time-weighted total return.

First Chicago Investment Advisors' International Dollar Fixed Fund was first for the five years ended Sept. 30, reporting a 16.5% compound annual total return.

It, too, was the only fund to top the EAFE for the period, which logged a 12.7% compound annual total return.

U.S. Trust, New York, took second place for the five-year period, with an 11.6% compound annual total return on its International Pooled Equity Fund.

For the 10-year period, U.S. Trust was the leader, with a compound annual time-weighted total return of 16.6%, compared with the EAFE's 16%. ■

For public funds entering real estate

Guaranteed contract makes debut

By Alan Krauss

NEW YORK — Public pension funds contemplating their first allocations to real estate can do so in the form of a guaranteed contract.

A new product developed by Metropolitan Life Insurance Co., called a guaranteed real estate contract, will allow pension funds to participate in the real estate market without assuming the higher risk characteristics often associated with such investments.

Like a guaranteed investment contract, the GREC provides for a complete guarantee of principal as well as a regular stream of interest payments. In addition, the GREC provides for a minimum return on investment of 8.5% annually.

However, unlike GICs, which entitle the insurer to all returns above that specified in the contract, the GREC provides for all returns in excess of 9.5%, or one full percentage point above the minimum, to be split 90%-10% between the investor and Metropolitan.

The contract also offers the potential for additional returns based on appreciation when the properties in the GREC portfolio are liquidated, according to Abbott Davis, a Metropolitan Life vice president and head of the insurer's real estate investors services group.

The GREC is oriented toward public pension funds, Mr. Davis said.

It cannot be sold to private-sector plans because Metropolitan is acquiring the properties in the GREC portfolio before the contracts are sold. That means purchase of the contract by private pension plans would contravene provisions of the Employee Retirement Income Security Act.

He said Metropolitan already has purchased or has firm commitments on about $70 million worth of properties that are earmarked for the GREC portfolio. The size of the first contract is projected to be about $100 million, Mr. Davis said.

The product was developed as a result of market research last summer that showed keen interest in such a product, said Mr. Davis.

According to Robert Bott, the Metropolitan vice president-pensions who heads its marketing efforts to public pension funds, the GREC was designed for public pension funds with assets of $500 million or less.

"It's similar to a closed-end fund, except that investors can see beforehand the properties they are investing in," Mr. Bott said.

Closed-end, commingled real estate equity funds raise money first, subsequently identifying suitable investments.

The contract's portfolio, on the other hand, is likely to be quite similar to many closed-end funds, concentrating on research and development facilities, office buildings and retail and light industrial properties. ■

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Cash Management

Industry awareness of 'big day' increases

By Richard J. Gillespie

NEW ORLEANS — Some cash managers might be in for a shock come March 27, and most particularly those cash managers working for investment management and brokerage concerns.

That's the date the Federal Reserve Board's "voluntary" program for regulating the daylight overdrafts on the nation's wire transfer systems snaps into place.

"The world isn't going to end March 27," Elliott C. McEntee, an associate director of the Federal Reserve Board, told a group of cash management industry representatives at the National Corporate Cash Management Conference here Nov. 13.

No one thought it would end. But that just might be the problem, according to Susan Clark Shellington, assistant director of treasury financial services at Bell Atlantic Corp., Philadelphia, who investigated the program's impact on her company's payments flows.

While she agrees the introduction of net debit caps won't be apocalyptic, she does think cash managers who don't investigate its effect on their cash flows before March 27 are taking a big risk.

The conference session given by Mr. McEntee, Ms. Shellington and Richard Matteis, a senior vice president of Manufacturers Hanover Trust Co., New York, seemed to heighten the concerns of cash managers in attendance.

At the outset of the conference, one cash manager even complained the net debit caps issue was a non-issue. But by the end of their session, cash managers were crowding around Ms. Shellington requesting copies of her presentation.

"There have only been a few people who really understood what is going to happen," said Ms. Shellington in a conversation after the conference.

She said she thinks cash managers are underrating the program's importance, and believes it could have a particularly notable impact on cash managers who work for money managers and wire transfer large amounts for investment purposes where time is of the essence.

"Cash managers really do not seem to understand what is going on, and the attitude on the part of the banks and even the Federal Reserve is 'Don't worry, it is not going to affect anyone,'" she said.

"We keep saying, 'That's nice, but we want to be worried.'

"I want to determine for myself that it is indeed a situation that will not affect me, but all the banks that I talk to have a specific way of handling it that is unique to themselves.

"Until you know how they are treating it, you do not know how to reach a solution."

The immediate threat is that a bank that has temporarily exceeded its cap will not be able to wire out its client's funds, at least not until the bank has received sufficient funds from other banks.

Also, a bank fearing it is about to exceed its cap might decide not to send any more payments until it gets some in. If enough banks face this situation, a kind of gridlock might be induced in the wire payments mechanism in which no one gets paid.

Mr. McEntee agreed there is a lot of confusion on the Fed's moves.

"We do not want to disrupt the wire transfer networks in this country, and that is very important because they play an important part in the payments mechanism," he said.

"We have talked to corporations who fear there is going to be gridlock," Mr. McEntee told attendees at an earlier session. "The Fed will not be rejecting any payments come March 1986."

He said the Fed will only be monitoring most transactions on an ex-post basis, although it will be monitoring the transactions of a few banks that are in some kind of trouble possibly every 15 minutes.

Mr. McEntee told the cash managers and bankers intraday overdrafts often occur very early in the morning when banks are moving their Fed funds around the wire transfer networks.

Why should corporations have to pay for the banks that create these overdrafts by repaying their Fed funds early in the morning, one cash manager asked.

"Corporations are not entirely innocent," responded Mr. McEntee.

In fact, he said Fed fund activities are only responsible for about half the average daily net overdrafts that occur on the Fed wire network, which average about $40 billion each day but can peak at much higher levels.

Corporate complicity is also believed to figure in the total average overdrafts of $40 billion on the private wire networks like CHIPS, CHESS and BankWire, as well as in the $40 billion average daily overdrafts on the FedWire's government securities clearing system.

The Fed is using net debit caps to protect the nation's electronic payment networks from what it calls systemic risk, which is the risk of a domino effect. If a bank collapses at a time when it has overdrafts in many other accounts, other banks could conceivably fail, thus causing

Continued on page 21

Fed to launch net debit caps

Cash managers urged to investigate the impact

NEW ORLEANS — According to Susan Clark Shellington, assistant director of treasury financial services for Bell Atlantic Corp., Philadelphia, cash managers must investigate the impact of the Federal Reserve Board's net debit caps program on cash management operations.

Cash managers can begin by making a determination of the direct effect net debit caps will have on their banks, said Ms. Shellington, who offered the following questions as appropriate to be raised with banks.

- What was the bank's most recent primary capital position?
- What progress has the bank made toward risk classification and the required documentation?
- When is the bank board meeting scheduled to approve the risk classification?
- What systems will be in place in March to monitor daily wire volume?
- What steps are being taken to initiate a dry run before the event?
- What is the bank's average daily volume on FedWire, in both dollars and number of transactions?
- At what time does the bank go into an overdraft position?

If a bank typically goes into an overdraft position early in the morning, gradually reversing its position during the day, how will a bank treat its early morning wires? Will they be held until

Continued on page 21

Internal program brings savings

By Fred Williams

DALLAS — The development of an in-house cash management consulting capability saved The Associates Corporation of North America $300,000 last year.

The treasury staff of The Associates achieved the saving through cash management consulting services offered to the company's subsidiaries, The Associates Financial Services Co. and The Associates Commercial Corp. and to their divisions.

Dorothea Winston, assistant treasurer-cash management, said the treasury department took on internal cash management consulting as a way to assist the various divisions in the development of banking relationships as well as to smooth the flow of receipts and disbursements throughout the company.

She said the effort has been so successful that divisional staff now seek advice from the cash management department in developing new services as well as assistance in other areas of financial operations.

"There was a lot of education involved throughout the company," Ms. Winston said. "Some of our operations involved in making loans aren't aware of what banking systems are out there. We teach them about controlled disbursement and what a lockbox is. Cash management has exploded in the industry and in our company."

Ms. Winston said the consulting service is not fashioned after any similar program "but sort of evolved with us and picked up momentum during the last year. I can't think of another company with this kind of consulting operation."

"There are not many people within this industry with our job description. We get involved with our employees and our subsidiary companies. We now get involved, for instance, when they get ready to roll out a new program ... to help them define the program, its parameters. We help them select their banks and offer help with the dos and don'ts regarding the auditing group. We don't tell them how to create their product but we do have an input."

Ms. Winston said the consulting function adds flexibility to the sometimes rigid policies of The Associates' centralized treasury management system and allows the divisions to have a degree of input into the design of their cash management systems.

The Associates, a subsidiary of Gulf & Western Industries Inc., is now the third largest non-bank finance company in the nation. It runs commercial operations out of 84 offices in the United States and Canada that provide financing and leasing services to various industries, including transportation, equipment, communications, business loans and factoring.

The centralized nature of the system helped make the consulting service feasible, she said.

"This all came about because in a centralized cash management system you can dictate these banking responsibilities and end up with a lot of alienated people," she said.

"This way, if we work with them and explain treasury operations to them, we allow them to participate in the final decisions."

The internal cash management consulting function, although informal, "helps keep the lines of communication open" between the treasury department and the various divisions and operating subsidiaries.

The Associates maintains approximately 1,300 bank accounts with 740 banks. Of that, between 25 and 30 are cash management service banks, said Ms. Winston. As of July 31, the company had $8.2 billion in receivables outstanding. Total revenue for the year ended July 31 were $1.7 billion.

The company is a major issuer of commercial paper in the United States and had total commercial paper volume of $36.7 billion for the year ended July 31.

Ms. Winston said the company is preparing a new commercial paper offering through its transportation division for certain dealers with excess short-term cash to invest.

Ms. Winston said the treasury department was asked to help put together the offering and has been involved in the contractual arrangements, banking operations and overall security and control features.

Ms. Winston said the internal cash management consulting service provided by herself and one other assistant treasurer has had a financial impact resulting in a saving of about $300,000 in the past 12 months alone.

The savings resulted from a review of the account analysis forms provided by banks and "weeding out of some services and discontinuing and modifying other services," she said.

The program has resulted in improved cash flow and availability and "has directly affected the profit and loss statements of our various branches," she said. ■

Payden & Rygel index of short maturities assets*

(for month ending October 31, 1985)

	October 1985	Quarter ending 9/30/85	Year to date	2 months ending 10/31/85	Yield level monthly change*
	Unannualized total returns				
90 Day					
U.S. Treasury Bill	0.6003	1.8443	6.9352	8.7934	+15
Domestic C.D.	0.7032	1.9343	7.1811	9.0830	−14
Euro $ C.D.	0.6934	1.9963	7.3159	9.3030	−5
180 Day					
U.S. Treasury Bill	0.5389	1.9181	7.5664	9.8251	+23
Domestic C.D.	0.7645	1.8822	7.5231	9.7888	−22
Euro $ C.D.	0.7456	1.9324	7.7282	10.0114	−15
1 Year					
U.S. Treasury Note	0.7393	1.7717	8.6268	11.4263	−7
2 Year					
U.S. Treasury Note	1.0658	1.8861	10.6787	14.7243	−18

*Figures are unannualized total returns. Year-to-date and 12 month figures linked monthly. 90 and 180 Day Treasury Bill yield level changes on discount basis.

*Basis points.

Source: Payden & Rygel, Los Angeles, California 90017

Late news

ontinued from page 1

ice president-investments.

About $4 billion is in Allied-Sig-al's U.S. master trust; the remain-er is in separate Allied Corp. and ignal Cos. savings plans and Cana-ian, British and other foreign pen-on funds.

A straight mathematical calcula-on would indicate the new com-any will take about $1.1 billion in mployee benefit assets with it. But lr. Tokar said factors such as the ge of the work force in the various usinesses and the numbers of orkers vested in each plan would ffect the division of the assets.

Mr. Tokar said the actuarial ork will be done in consultation ith Kwasha Lipton, Fort Lee, J.; The Wyatt Co., Washington, nd Hewitt Associates, Lincoln-hire, Ill., which are the respective rincipal actuarial consultants for he Allied, Bendix Corp. and Signal ension plans.

He said the final division of pen-on assets will follow the spinoff of he new company, which is ex-ected to be completed in spring.

Settlement upheld

CHICAGO — The 7th U.S. Cir-uit Court of Appeals upheld 2-1 a ower court's settlement of lawsuits rought by participants in the eamsters, Central States, South-ast and Southwest Areas Pension und claiming the fund had been ismanaged and participants were enied benefits.

The 1984 settlement called for, mong other things, $2 million to be aid to private plaintiffs who had rought a class-action suit for alleged enefit denials. That case had been ombined with two others, including he brought by the Department of abor, which charged the fund with ismanagement.

In upholding the settlement, the ppellate court rejected Labor De-artment arguments that the pen-on fund had not been penalized dequately.

Oil, gas investment

MADISON, Wis. — The Wiscon-n State Investment Board has ommitted $15 million to a package f limited recourse notes put to-ether by Apache Petroleum Co., linneapolis.

The $118 million private place-ent by the oil and gas producer ill be used to finance equipment eases and development of about 00 wells in the Gulf Coast area nd the Powder River Basin in yoming recently purchased by pache from Davis Oil Co.

The notes carry a 10% coupon ith an equity kicker. The princi-al is scheduled to be repaid over a x- to seven-year period. Apache fficials estimate total rate of re-rn in the area of 15% to 20%.

Kenneth Codlin, executive direc-r of the $8.75 billion fund, said he Apache deal is its first oil and as investment.

"We have been interested in this ype thing for a couple of years ow," said Mr. Codlin. "Oil and gas ay be in the pits at this point, but will be around for a long time. his is a growth investment."

PRIT return is 10.4%

BOSTON — The Pension Re-erve Investment Trust, which has 701 million in employee benefit ssets, achieved a return of 10.4% r the first three quarters of 1985.

That result is 193 basis points reater than comparable market ndexes for the same period, said aul Todisco, a fund analyst.

The fund, which is managed by he Pension Reserve Investment anagement Board, consists of the eserve funds of the State Employ-es' and Teachers' Retirement sys-tems, and the retirement systems in five municipalities.

Equitable fund ready

NEW YORK — The Equitable Life Assurance Society of the United States launched its first international fund by hiring Daiwa International Capital Management Co. Ltd., New York, and Schroder Capital Management International, London, to manage portions of it.

Daiwa will manage the Pacific Basin portfolio, Schroder will manage the European portfolio, and Equitable Investment Management Corp. will manage an international portfolio.

Late money movers

• DES MOINES, Iowa — The $2.7 billion Iowa Public Employees' Retirement System has added two more equity managers to complete the initial restructuring of its equity portfolio, said a fund official.

Rosenberg Capital Management, San Francisco, was hired to manage an equity portfolio with a small-capitalization stock emphasis. Prudential Asset Management Co. Inc., Newark, N.J., was hired to manage a portfolio of medium-capitalization issues.

No amounts were given.

• NEW YORK — The $300 million-plus American Federation of Television and Radio Artists Pension Fund hired one equity manager and dropped another as part of an asset redeployment, according to Martin Levenson, senior president of Segal Advisors Inc., New York.

The fund selected Cutler & Co., Medford, Ore., to run $10 million. The fund also decided to withdraw its $10 million-plus account in New York-based Bernstein-Macaulay Inc.'s Emerging Growth Trust.

In addition, the fund boosted its allocations to equity index and real estate managers, but declined to provide details.

• LAKE ZURICH, Ill. — The $3.5 million Schultz Bros. Co. pension fund has hired Resource Capital Advisors Inc., Milwaukee, as balanced manager for $3 million, said Carl H. Schultz, president.

Resource Capital replaces Stein Roe & Farnham, Chicago, Mr. Schultz said.

Institutional Fund Consultants Inc., Madison, Wis., assisted in the search.

• BOSTON — The Jewish Memorial Hospital hired Paramount Capital Group, New York, to run an undisclosed amount of pension assets in an option-hedged equity portfolio.

Nat Buchman, trustee of the pension plan, confirmed the hiring but would not disclose the size of the account or the plan's total assets.

Personnel changes

• WASHINGTON — Jerry N. Clark has been named executive director of the United Mine Workers of American Health and Retirement Funds. Previously, he served as the funds' director of operations. Mr. Clark succeeds Herbert Dyer.

• BRANFORD, Conn. — Andrew J. Mazzarella has been elected corporate controller of Echlin Inc., here. He has been a division controller for operations in Echlin's automotive brake and engine systems groups.

• MINNEAPOLIS — Harry Adams, formerly manager of Cargill Inc.'s $240 million pension trusts, has been named executive secretary and investment manager of the $310 million Minneapolis Teachers' Retirement Fund, effective Dec. 1. He replaces Newell O. Gaasedelen, who is retiring.

Mr. Adams' successor at Cargill is Sally Holt, who had been assistant manager of pension investments.

Proper positioning paid . . .

Continued from page 3

Chase Investors Management Corp., New York, discretionary managers of $13 billion in tax-exempt assets, has been fully invested since the middle of the summer, according to Stephen E. Canter, president.

"We've had relatively modest reserves in our large-cap equity accounts," Mr. Canter said. "Our cash position has been minimal, about 5% to 10%."

Bankers Trust — Investment Management Group, New York, with $31.2 billion in assets under management, went into the rally with its equity portfolios between 95% and 100% invested as of the end of the third quarter, said Steve Reynolds, managing director. The manager remained in the market through the middle of November, having raised just 10% cash by the third week of the month, Mr. Reynolds said.

Travers Bell Jr., president of DanBell Capital Management Inc., New York, which manages $50 million, said his firm has only about 8% in cash, in anticipation of further increases in stock prices. The firm has been decreasing its cash position since it peaked in June at about 18%, Mr. Bell said.

Avatar Associates, New York, which manages $470 million, has its managed portfolios fully invested, according to Bruce Poliquin, vice president. Mr. Poliquin said the firm raised some cash in mid-October, but quickly reversed direction.

"We got down to about 70% to 75% equities for about a week, but we put the cash back into the market," Mr. Poliquin said.

"We're now 100% invested," said Carl J. Kludt, president of Tacoma, Wash.-based Portfolio Timing Inc., which manages $4 million. Mr. Kludt said he had accumulated some cash from new clients and from new commitments from existing clients, but that the assets had been put into the market by early November, after the firm's cash position peaked at about 15% in mid-October.

Some Wall Street observers suggested that at least some institutional buying — particularly by mutual funds — contributed to the equities market surge.

Among them was A. Michael Lipper president of Lipper Analytical Services Inc., Westfield, N.J., who noted that there was "a fair amount of bearishness" in the market as recently as September that led "a lot" of market-timing money managers to pull out of equities. Those firms have since reversed themselves, he said.

Robert Kirby, chairman of Capital Guardian Trust Co., Los Angeles, said a decline in equities as a percentage of U.S. corporate pension assets and a concomitant increase in fixed-income holdings have left pension funds with easy access to assets with which to jump into a hot stock market.

"Everyone seems to have overlooked the fact that ... fixed-income portfolios as a percentage of pension assets have grown to almost 50%, Mr. Kirby said.

"A lot of those bonds are in maturities of five years or less — and that means the pension funds have a lot of money to throw at equities.

"It's easy to pooh-pooh the shrinkage in the (equities) universe," Mr. Kirby said.

"But with most corporate pension fund cash flow going into fixed-income investments, a modest swing of 2% or 3% of those assets (into equities) could have an enormous impact" on the stock market.

In addition, Mr. Kirby argued institutions are the most likely buyers of the blue-chip issues whose heavy trading volume and increasing prices have powered the rising Dow Jones average.

The bull market seems to have swept away the skeptics, and contrarians appear to be few and far between.

Dana Investment Advisors, Brookfield, Wis., with $106 million in tax-exempt assets under management, is one investment manager that has reduced its equity position by selling into the boom.

"We think the chances are good that we've hit a major market top," said Jim Ivey, vice president and director of research.

Mr. Ivey said the firm had shifted its equity-oriented accounts from between 75% and 80% invested in mid-October to about 75% to 80% cash a month later.

Linda Newman is senior vice president of Atalanta Capital Corp., New York, which shifted its managed equity accounts to 2% cash in mid-October from 30% cash at the end of August. She said she thinks there is "a lot of money out there with no place to go" as a result of takeovers and stock buybacks.

Atalanta manages $290 million in tax-exempt assets.

The nation's mutual funds also held a high proportion of their assets in cash at the end of September, according to Alfred Johnson, chief economist of the Investment Company Institute, Washington. Mr. Johnson pegged the cash position of an $85.1 billion universe of mutual funds tracked by the institute at 10.2% as of Sept. 30. The figure is the highest since January of this year, he noted. ■

Funds return to equity . . .

Continued from page 3

Leon Cooperman, chairman of the investment policy committee at Goldman, Sachs & Co., said the move into stocks could be seen as a sign of the narrowing relative returns between stocks and bonds.

Bonds had been trading at record real rates of return while stocks had been weighed down by the moderate economic growth and strong dollar.

"You no longer have the relative value argument bearing down on the equity market," he said.

In addition, public pension funds, which have been breaking down the legal barriers to equity investment, resumed their equity investment programs months before the mid-November rally.

They had doubled equity holdings recorded at the beginning of 1983 to more than $123 billion at mid-year 1985, after heavy buying in the first half, according to the Federal Reserve Board's figures.

Public pension funds were net purchasers of $16.52 billion worth of stocks during 1983. Activity fell off in the first half of 1984, but bounced back to set record levels in the second half.

In the first quarter of this year, public funds purchased a net $7.07 billion in stocks. In the second, they threw in another $4.74 billion.

When activities from both private and public pension funds are taken together, the trend shows pension plans have been providing substantial cash flow into the equity markets after the dry period of declining participation.

In 1983, for example, the flow of pension assets into the equity markets was steadily eroding. On aggregate, pension funds were net sellers of equities in the first half of 1984. Buying resumed in the second half and reached a healthy $11 billion in net purchases in the first quarter of 1985, before falling off to $5 billion in the second quarter of this year.

At the same time, private pension fund purchases of fixed-income instruments have remained strong throughout the period. That means money managers dipped into cash reserves to help their pension fund clients become net purchasers of equities, analysts said.

Some players drew on their cash reserves to take positions in longer-term assets as early as the second half of 1984, according to the figures.

One such player was Morgan Guaranty Trust, which was reported to have drawn heavily on its cash reserves to move deeper into both the equity and fixed-income markets starting July 1984. One consultant reported Morgan had increased its equity allocation by as much as 10% at that time.

A spokesman for the bank, who did not wish to be identified, confirmed the bank had substantially lowered its cash position then. He said the bank had increased both the equity and fixed-income components of its accounts.

"Right now, I suspect there are very few investment managers holding a lot of cash by design," said Paul Troup, a vice president with William M. Mercer-Meidinger Inc., Louisville, Ky.

"The big kahunas are saying, 'Let's get into the market, this is a hot ticket,'" he said a week before the mid-November rally.

According to Mr. Berg, cash reserves were drawn down by investment managers when yields on cash began to drop to 7.5% from 9%. That's because they could get a 6% yield in dividends on stocks and take advantage of any upside potential.

"A lot of those cash balances were drawn down not because the equity market was attractive, but because cash returns had fallen," he said.

"I have attended a number of meetings where the client has asked his manager why he had 15% in cash.

"After enough of those meetings, the investment manager gets the message. He realizes he had better get invested in something with some upside potential."

Ralph Acampora, a vice president and technical analyst at Kidder, Peabody & Co., New York, said he thought the stock market had become attractive to pension funds because of the "strong leadership" provided by blue-chip stocks.

For the second half of 1983 and most of 1984, the blue chips have done well, he said.

"I think that is a lure as far as equities are concerned. I suspect that if that continues, it will be a magnet for that kind of investment," he said.

Mr. Berg also pointed to the growing commitment of managers to the disinflationary scenario, where declining interest rates and a continued weakening of the dollar would make U.S. companies more profitable.

"Smokestack America may be on the way to recovery, and that is another flavor that I hear," he said.

The Federal Reserve Board's figures are compiled to track net purchases or sales of equities by various categories of investors, including private and public pension funds, as well as by households.

The figures showed private pension plans held a record $330 billion worth of equity market securities as of June 30, up from $248.5 billion at the end of 1982, and $312.5 billion at the end of the third quarter of 1983, which was before the selling was first noted in the Z-1 results. ■

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Interest is rising in oil, gas

By Fred Williams

A few pension funds took another look at oil and gas investments during the second half of 1985 as oil prices firmed somewhat, but industry experts don't expect a wholesale return to the oil field by pension funds.

Apache Petroleum Co., Minneapolis, met with some success in its efforts to lure new pension investors into the market. That followed almost a year in which pension funds were leery of oil and gas deals in the face of uncertain market conditions and softening oil prices.

Marketers of some oil and gas deals have been able to raise funds from existing clients continually for a variety of deals, but few added new pension players until recently.

Apache closed its fourth private placement deal in October with eight investors, including four pension plans, totaling $118 million.

Investors included the Wisconsin State Board of Investment, $15 million; Minnesota State Board of Investment, $23 million; Minneapolis Employees' Retirement Fund, $10 million; and Teachers' Insurance & Annuity Association-

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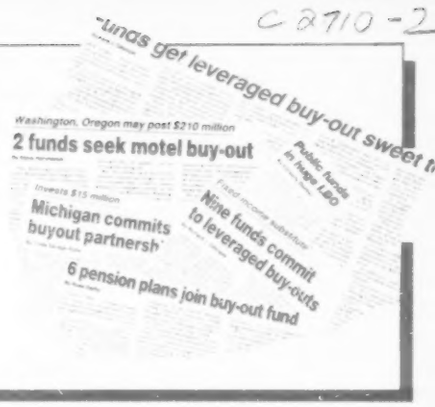
Leveraged buy-outs

A special section on management buy-outs, the future of LBOs and returns is on page 41.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2 funds seek motel buy-out
Public funds in huge LBO
Invests $15 million
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Nine funds commit to leveraged buy-outs
6 pension plans join buy-out fund

Pensions & Investment Age

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Texaco aftermath

Investors uncertain

By Barry B. Burr

Some institutional investors face fiduciary as well as investment decisions as they wrestle with what to do with their holdings of Texaco Inc. as a result of the $10.5 billion judgment against the company.

Other institutions, including index funds, acknowledge uncertainty over Texaco's future, but aren't dumping the company's stock. In some cases, they even are continuing to buy it.

Still others are taking profits. The Teacher Retirement System of Texas, Austin, has made about $9.7 million in profits since a Texas jury ordered Texaco, White Plains, N.Y., to pay Pennzoil Co., Houston, the award. Fund officials sold off about half the holdings in Texaco and Pennzoil, said Clark P. Manning, the fund's deputy executive secretary-investments.

"We took some insurance out in the way of a $10 million profit," Mr. Manning said.

Continued on page 63

Seven pool $86 million for partnership in turnarounds

By Barry B. Burr

Seven institutions, including the pension funds of Boeing Co. and GTE Corp., the Oregon Public Employees' Retirement System and Harvard Management Corp., are pooling $86 million in a limited partnership to invest in potential turnarounds of high-risk, financially distressed companies.

The newly organized partnership, formally called the Oppenheimer-Palmieri Workout Fund limited partnership, is the latest and one of the few set up to take equity positions in troubled companies that look like they may recover.

A similar fund, the Smith Vasiliou Special Situations Fund limited partnership, raised $70 million, mostly from institutions, and began investing in January 1984.

Executives at the funds and at institutions were unaware of any similar funds for institutions.

Gregory Densmore, director of investment evaluation at GTE Investment Management Corp., Stamford, Conn., described its recent commitment to the Oppenheimer-Palmieri fund as a sort of equity equivalent to junk bonds.

In hopes of turning around the failing companies, including some in bankruptcy proceedings, managers of the Oppenheimer-Palmieri fund plans to take active operating control of the companies' management.

Basil Vasiliou, a Smith Vasiliou fund general partner and an associate director of Bear Stearns & Co., New York, said the funds have similar methods. Unlike the Oppenheimer-Palmieri fund, the Smith Vasiliou fund doesn't seek operating control, Mr. Vasiliou said, stressing the word operating. Mr. Vasiliou said he and the other Smith Vasiliou general partner, Randall Smith, a former Bear Stearns partner, often do take seats on the boards of the firms in which the fund invests to influence their reorganization and management policy. Mr. Smith now is senior partner of R.D. Smith & Co., a New York securities firm.

Mr. Vasiliou said many of the partnership's investments are in companies that have filed for bankruptcy law protection.

By virtue of the fund's investments, Mr. Vasiliou said, he sits on Richmond Tank Car Co.'s board of directors; Mr. Smith has sat on Manville Corp.'s board.

The Oppenheimer-Palmieri fund hasn't made any investments yet. Ned P. DeWitt II, president of the fund's management group and a Palmieri managing director, said he expects the fund to make its first investment soon. He declined to discuss details until the deal is consummated.

The other institutions investing in the Oppenheimer-Palmieri fund are the World Bank, Washington; the Kamehameha (Bishop) Foundation, Honolulu; and John Han-

Continued on page 63

3 public funds change strategy

By Chuck Paustian and Trudy Ring

Three public retirement systems have made major investment changes totaling more than $1.4 billion.

• The $2.6 billion Iowa Public Employees' Retirement System, Des Moines, has made its first moves into venture capital and real estate. It committed up to $17.5 million to five venture capital funds, while it chose one real estate manager and is finishing arrangements with three others, said Dennis Jacobs, deputy administrator.

• The $320 million Colorado Fire and Police Pension Association, Denver, hired two fixed-income managers for a total of $75 million, released a balanced manager and reallocated $162 million, said David A. Powers, executive director.

• The West Virginia Board of In-

Continued on page 59

Late news

Pennsylvania taps 9

HARRISBURG, Pa. — The $5.4 billion Pennsylvania State Employes' Retirement Fund has hired four small- to medium-capitalization equity managers and five venture capital managers, according to Kenneth G. Mertz II, the fund's new chief investment officer.

All nine managers are in Pennsylvania, which Mr. Mertz said was not a prerequisite. The venture capital managers will have an in-state investment bias.

Continued on page 62

International markets have drawn more attention in 1985 and are expected to remain popular in 1986. The options floor of the Sao Paulo, Brazil stock exchange is shown here. The international section begins on page 13.

The *P&I Age* monthly indexes track the changes in the Standard & Poor's 500 stock index, the Russell 3000 stock index, the Ryan Index of fixed-income securities and the Shearson Lehman Government/Corporate bond index.

***P&I Age* November indexes**

	Latest mo.	Year to-date	Trailing 12 mos.
S&P 500	6.9	25.7	29.0
Russell 3000[1]	7.1	26.6	29.7
Ryan Index[2]	2.5	19.7	21.5
SLAE Gov't./Corp.[2]	2.3	17.7	19.4

Source: Rogers, Casey and Barksdale Inc.

[1]Frank Russell Co. [2]Fixed income.

Spinoff/termination cited

Celanese exec goes to UMW

By Chuck Paustian

WASHINGTON — Charles S. Stephens, assistant controller and corporate pension officer of Celanese Corp., has resigned to become director of investments for the $3.5 billion United Mine Workers of America Health and Retirement Funds.

Mr. Stephens cited the company's spinoff/termination of its defined benefit plan as the reason for his departure.

He said he left for "the challenge of being a pension officer for an extremely large fund as opposed to being the pension officer at Celanese, which is now a small fund."

In January 1984, Celanese recaptured more than $325 million through the spinoff/termination of its defined benefit plan.

As a result, Mr. Stephens said, the plan shrunk to about $40 million in assets; the next company contribution is scheduled for September 1986.

He said it would be "a number of years" before the plan surpassed the $100 million level.

"It was simply a decision on my part to search for a more challenging position with a large, growing plan," said Mr. Stephens.

Joseph Bereswill, director of corporate communications at Celanese, said a replacement for Mr. Stephens has not yet been named.

Francis McCarthy, a consultant, will assume the pension responsibilities and David Bullock, risk manager, will handle the insurance activities. Both will report to Arthur A. Cooksey, vice president and controller.

Except for learning the nuances of Taft-Hartley funds, Mr. Stephens said, he does not expect the transition to be a difficult one.

"Essentially my role here as director of investments is very similar to what I was doing at Celanese," he said.

His responsibilities will include overseeing the union fund's stable of more than 20 external investment managers as well as a small portion of fixed-income assets managed internally.

He replaces Linda Taylor, who left in January to become the investment manager of the International Union of Operating Engineers' Central Pension Fund (*Pensions & Investment Age*, Feb. 4).

Mr. Stephens will report to Jerry N. Clark, the new executive director.

"I report to Mr. Clark, but respond to the board of trustees on investment matters. It's very similar to a corporate setup, where you have one person to whom you report and a committee with general responsibilities," Mr. Stephens said.

He said he has no current plans to alter the investment strategy of the fund.

In a related matter, the UMW trustees plan to spin off into a new plan the portion of the plan covering construction workers. Sources estimate the new plan would have between $75 million and $80 million in assets and would be fully funded.

The spinoff, intended for next spring, would affect between 2,000 and 2,500 active participants.

William Howe, general counsel for the Association of Bituminous Contractors, said the spinoff would facilitate the collective bargaining process.

"Construction and mining are

Continued on page 58

Charles Stephens

Pension funds hire more growth stock managers; cut down on value firms

By Fred Williams

Pension funds are hiring more investment managers with a growth orientation and fewer value managers to capitalize on current market conditions and extend somewhat their investment horizons, consultants say.

Between July and October of 1985, 62.5% of SEI Funds Evaluation Services' manager searches were for growth managers, while 37.5% were for value-type managers, said Dave O'Donovan, vice president of the manager search group in Chicago.

During the first half of the year, nearly 90% of the searches were for value managers, Mr. O'Donovan said.

In 1984, about 75% of the SEI searches were for value-type investment managers, he said.

The tilt toward growth managers indicates a lengthening of their investment horizons, he said. "Most are for diversification reasons rather than as a result of terminations, which leads us to believe they are taking a long-term focus."

Don Gingery, director of investment management research at William M. Mercer-Meidinger Inc., Louisville, Ky., said pension executives are leaning toward growth managers in hopes of applying a contrarian approach. In the past, he said, they followed the herd instinct in hiring a manager based on past performance.

"It's contrarian to the extent that they were hiring firms with the best records the year before. Sponsors usually buy when they are at the top of the market, and it has been a difficult year for the growth area. It would be difficult to find one at the top of the performance list," he said.

"Sponsors are thinking now about what their performance will be in the future, so they are thinking about growth and whether that style is represented in their fund.

"With the trend toward a deflationary economy and decreasing interest rates, people are looking at earnings and quality. We are in a different environment than in the past couple of years. Growth is

Continued on page 62

Plan sticks with stock

By Steve Hemmerick

BERKELEY, Calif. — The University of California Retirement System is planning to hold fast to an asset allocation policy that emphasizes common stock investment and has produced top performance.

The $5.2 billion system has a policy of investing about 75% or more of its assets in stocks, a percentage held by few corporate funds and even fewer public ones.

The fund's performance seems to justify its policy. It has scored in the top quartile of the SEI Funds Evaluation Services universe for the one-, five- and 15-year periods ended June 30, according to Patricia Small, the university's associate treasurer.

The fund returned 32.1% for one year, 15.7% compounded annually for five years and 10.2% compounded annually for 15 years.

Its cumulative return for 15 years has been 327.5%. When bond substitutes, such as utility stocks, are added, the university portfolio is about 85% stocks.

Yet the fund's beta, or measure of risk, has declined since 1973, said Herbert M. Gordon, university treasurer.

The beta declined to 0.93 from 1.09, meaning the portfolio now is about 7% less risky than the Standard & Poor's 500 stock index, when it used to be 9% more risky.

And, Mr. Gordon said, the university has been buying value. Since 1974, the price/earnings ratio on a representative sample of the portfolio's stocks has decreased to 14 times the S&P 500 from 23 times, even though the university focuses on buying high-quality growth stocks, whose p/e ratios tend to be higher than other stocks.

The fund has achieved those returns by managing almost all of the money in-house, with a staff of five professionals.

It uses little real estate and no options. University officials have thought about, but don't use, futures or index funds. The fund does use venture capital, representing about 2% of assets.

Fund officials also are preparing to invest in international securities. When fund officials do invest in those securities, they will use members of the in-house staff to make the international investments, ac-

Continued on page 61

Big clients elude small managers

By Ed Christman

Slow pension asset growth may be putting the squeeze on small money management firms trying to land large pension funds as clients.

With less cash flow for pension funds to allocate:

- Some investment management firms started in the 1982-83 bull market are not growing as quickly as did firms that started a few years earlier.
- Several small firms have merged into larger organizations.
- The use of "farm teams" and specialty managers may be decreasing.
- Some portfolio managers are being discouraged from leaving established firms to start new ones.

"There already is a dramatic reduction in the formation of new firms," said Duncan Smith, a senior vice president at the consulting unit of the Frank Russell Co., Tacoma, Wash. "From 1982 to 1984, there were an awful lot of new firms."

Although precise statistics on the number of new firms launched during that period were unavailable, *Pensions & Investment Age* estimated more than three dozen firms formed were in 1983 alone (*P&I Age*, Nov. 14, 1983).

Good investment returns and funding policies mandated by the Employee Retirement Income Security Act helped bring many corporate pension funds to a highly funded level. Once there, sponsors contributed less money to their pension funds.

In addition, they no longer seem to be enhancing benefits and, instead, are terminating over-funded plans, funneling pension assets into annuities to pay vested benefits, said Don Gingery, director of investment management research for William M. Mercer-Meidinger Inc., Atlanta.

Today, most funding of new managers occurs when other managers are terminated, making the marketplace more competitive, said Russell's Mr. Smith.

And managers getting the most new business offer passive products, agreed Messrs. Smith and Gingery.

"It is very competitive out there," said William L. Goldman, vice president at Winrich, Schaenen &

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Broker surveys, authors clashing

By Richard J. Gillespie

Conflicting results of broker performance surveys have sparked a war of words between the authors.

At issue is whether money managers and their pension fund clients get better trades from brokerage firms charging higher commissions.

The survey commissioned by big brokerage firms showed larger firms had a market advantage in performing trades, while the one paid for by a discount brokerage firm showed there was no difference.

SEI Corp., Wayne, Pa., already markets a survey for measuring such costs in terms of market impact, whether the stock was bought or sold at a competitive price and without the trade affecting the price.

With portfolio turnover now running at historically high levels, the issue is significant. Trading impact costs can shave as much as 60 basis points off a money manager's performance in a year, studies show.

The authors of a more recent survey say they have overturned some previous "myths" on the relative merits of brokerage firms.

Stephen Berkowitz, president of Berkowitz, Logue & Associates, a consulting firm in Columbia, Md., and Dennis Logue, a partner in the firm and a professor at the Amos Tuck School of Business Administration at Dartmouth College, believe SEI's survey created a false impression of the advantages of using large, well-capitalized brokerage firms over the newer breed of discount brokers.

The survey by Messrs. Berkowitz and Logue found no relationship between the size of a brokerage firm and the quality of execution.

They hope their new methodology will provide the basis for measuring brokerage firm performance on an ongoing basis.

To this end, Abel/Noser Corp., the New York discount brokerage firm that commissioned the survey, is offering to analyze broker performance for the first three quarters of 1985 free, on a pilot basis, and on an ongoing basis to any clients who spend at least $5,000 in commissions with the firm each quarter, according to Eugene A. Noser Jr., president.

Mr. Noser said the analysis of the quality of broker executions may provide the key to some money managers' performance, since market impact could reduce the performance of a portfolio by as much as 60 basis points per annum.

But Gilbert Beebower, author of the SEI survey, is outraged.

"Nothing they conclude from their methodology has any merit whatsoever," he commented.

"The issue here is that their methodology is flawed and so discussing their conclusions is irrelevant. I have been in this business for seven years and I cannot understand why intelligent people fall prey to the simplest absurdities, and that is what this is. It's bizarre," he said.

"I get very emotional when I see people coming forward in the press and presenting two equally believable scenarios, both of which are contradicting one another, when in fact I can illustrate that nothing that they have concluded has validity because it was flawed by their methodology."

The principal officers of Abel/Noser evidently were upset at the results of the SEI survey, which Mr. Beebower published earlier this year (*Pensions & Investment Age*, April 15).

The SEI survey, commissioned by Goldman, Sachs & Co. and Donaldson, Lufkin & Jenrette, was generally favorable to big brokerage firms such as the two New York ones that commissioned the survey.

It reported that big brokers with block trading capabilities had a trading advantage in terms of market impact, which traders refer to as the cost of a trade.

The market impact of a trade was substantially larger when executed by smaller brokerage firms than when carried out by a large brokerage house, the SEI Corp. study showed, and the relative advantage of 17 big brokers ranged from 9.7 cents on easy trades when measured on a dollar-weighted basis to 6.3 cents for hard trades.

"We did not find that," Mr. Berkowitz said of his firm's survey.

"We found that there seemed to be no relation between the size of the brokerage firm and the execution.

"Also there seemed to be no relation between the commissions paid and the executions.

"As we analyze more market data, relationships may appear, but we do not think so because we have not seen it in a lot of the portfolios that we analyzed," said Mr. Berkowitz.

For trades of 5,000 shares or less, SEI found the big brokers had less of an advantage, about 1 cent.

Berkowitz, Logue examined more than 5 million separate trades on New York Stock Exchange-listed stocks. They also analyzed the various investment portfolios

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Comparison of dollar weighted average price to closing price for securities listed in the New York Stock Exchange (1st quarter 1985)

Range of shares per transaction	Negative deviations from dollar weighted average price	Positive deviations from dollar weighted average price
10,000 - 15,000	.54%	.55%
15,001 - 25,000	.51	.50
25,001 - 50,000	.51	.48
50,001 - 75,000	.51	.47
75,001 - 100,000	.45	.46
100,001 - 150,000	.52	.45
150,001 - 200,000	.47	.51
200,001 and over	.43	.44
Deviation of close from dollar weighted average price[1]	**.51**	**.59**

[1] Aggregate dollar volume at close: $4.273 billion

Total dollar volume of quarter: $290.4 billion

Source: Data — Francis Emory Fitch, analysis — Berkowitz, Logue and Associates

Stephen Powers, a senior vice president at Bankers Trust, said switching to investment banking takes flexibility, creativity.

Lynn Aylsworth, a senior vice president at FNB Chicago, expects his bank to be in the Top 10 of investment banks.

Commercial banks find way onto Wall Street turf

By Marci Baker

Earlier this fall, officials of R.J. Reynolds Industries Inc. invited investment bankers to come up with ideas for raising capital to help finance Reynolds' acquisition of Nabisco Brands Inc.

While major Wall Street houses rallied to the task, it was a commercial bank — Morgan Guaranty Trust Co. — that won.

Morgan Guaranty proposed to issue overseas $265 million in deutsche mark-denominated, 15-year bonds that, through a swap into dollars, ultimately shaved an estimated 30 basis points from what Reynolds would have had to pay out for a similar U.S.-issued offering.

"A number of investment banks brought up very capable proposals," said John Dowdle, senior vice president of financial services at Reynolds in Winston-Salem, N.C. "But we thought Morgan's deal was much better in terms of the length of the securities and swap characteristics."

Morgan Guaranty is only one of several commercial banks moving onto turf once occupied solely by Wall Street investment bankers. Corporations increasingly are turning to such institutions as Bankers Trust Co., Citicorp and The First National Bank of Chicago to arrange overseas financings, swaps and private placements and to provide other services they traditionally received from Wall Street firms:

Corporate finance

- Ogden Corp., New York, turned to Bankers Trust when it recently sought a financial adviser for a $375 million leveraged buy-out through its employee stock ownership plan.
- General Dynamics Corp., and McDonnell Douglas Corp., both in St. Louis, recently established a Eurocommercial paper and Euronote facility, respectively, through First Chicago Capital Markets, the investment banking unit of FNB Chicago.
- Ryder System Inc., Miami, tapped Citicorp Investment Bank to act as a financial adviser in its recent acquisition of Aviall Inc., Dallas.
- Beverly Enterprises, Pasadena, Calif., hired Manufacturers Hanover Trust Co. to arrange a $30 million, seven-year private placement of debt.

"The banks are definitely becoming league players," said Robert Perkovic, treasurer at TRW Inc., Cleveland, which selected Morgan Guaranty as one of four co-lead managers for a Euroyen issue it sold last December.

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FASB actions are revealed

Pension rules reflect uniform, not hardline, stance

By Rose Darby

STAMFORD, Conn. — The pension accounting rules the Financial Accounting Standards Board will release Dec. 31 show the board stuck to its guns by creating uniform methods but softened some of the effects on employers.

The rules, prefaced by two years of hearings, will be effective Dec. 15, 1986.

Bits and pieces still could be altered, but four important changes will emerge on Statements 87 and 88, said Tim Lucas, the FASB project manager.

- As expected, all unfunded liabilities will have to be reported on the balance sheet, and more will be disclosed in balance-sheet footnotes.

For example, corporations will have to report unrecognized net gains and losses, unrecognized prior service costs and projected benefit obligations, Mr. Lucas said.

- Using the projected unit credit method, corporations will have to recognize cost, or liability, over the service period of workers.

An earlier FASB exposure draft called for companies to report liabilities based on workers' future salary increases.

The final version softens the blow for many companies because it requires them to report liabilities based on employees' current wages.

- The formula for plan asset valuation will be altered to take into account market volatility.

Pension funds now use the market value of assets to determine valuation. Under the new rules, "a market-related asset value and an estimated long-term, return-on-assets rate will be used to calculate the return-on-assets component of cost," Mr. Lucas said.

- Companies recovering assets by terminating pension plans will record a one-time gain from the move. Previously, that gain was spread over a minimum of 10 years for companies replacing their terminated plans with successor defined benefit plans.

"The document represents a tre-

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Corporate finance instruments are target for review

By Marci Baker

STAMFORD, Conn. — The Financial Accounting Standards Board is laying the groundwork for what could be a sweeping review of the accounting practices for new corporate financing instruments.

Currency and interest-rate swaps, asset-backed securities, repurchase agreements, Dutch-auction rate preferred stock and putable securities are among the new financing tools that have surfaced during the past two years.

Such a review would take at least two years and would examine whether some current accounting standards are outmoded and whether establishing new, "future-oriented" rules would be more appropriate, said Halsey Bullen, the FASB project manager coordinating the review.

If launched, the long-range project, like the one on pension accounting standards about to be completed, will almost certainly spark debate among issuers, investment bankers and corporate accountants.

"This is going to be a barn burner in my view. The project is needed, but it will be very controversial," said John Stewart, a partner at Arther Anderson & Co. and a member of the American Institute of Certified Public Accountants' task force on financial instruments.

The Financial Executives Institute, whose members are corporate finance executives, already has responded coolly to the idea of a sweeping review, though its members agree some kind of review is needed. The FEI's committee on corporate reporting wrote to FASB, recommending it narrow the scope of the project.

The committee believes a broad-scale review is not warranted, and questions whether it would be manageable, said Joseph Sciarrino, vice president and technical director of the FEI.

FASB officials also aren't certain how manageable a sweeping review would be.

Mr. Bullen said he is setting up a framework for a review, categorizing the hodge-podge of new financing products into broad, theoretical

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